

consolidated statements of changes in financial position

YEARS ENDED DECEMBER 31, 1995 AND 1994

<i>(in thousands of dollars)</i>	1995	1994
Operating activities		
Net earnings	\$ 14,631	\$ 14,533
Add items not requiring the use of cash		
Amortization	4,821	3,128
Loss on disposal of property, plant and equipment	11	243
Non-controlling interest	101	113
Equity loss (income)	(126)	27
Deferred income taxes	(15)	398
Gain on disposal of equity investment	(152)	-
	19,271	18,442
Decrease (increase) in accounts receivable—long-term	(3,918)	1,073
Increase in non-cash working capital items	(11,727)	(16,081)
	3,626	3,434
Financing activities		
Dividends paid	(4,271)	(3,479)
Repayment of long-term debt	(2,561)	(94)
Proceeds from issue of shares (Note 8)	830	40,562
Share issue costs	-	(1,638)
Dividend to non-controlling interest	(30)	-
	(6,032)	35,351
Investing activities		
Purchase of property, plant and equipment	(22,227)	(7,626)
Proceeds from disposal of property, plant and equipment	164	309
Deferred charges and bid costs	(1,571)	(208)
Loans and advances to equity investee	(48)	(387)
Proceeds from disposal of equity investment (Note 3)	298	-
Repayment of loan to equity investee (Note 3)	1,070	-
	(22,314)	(7,912)
Net cash inflow (outflow)	(24,720)	30,873
Cash (bank indebtedness), beginning of year	24,549	(6,324)
Cash (bank indebtedness), end of year	\$ (171)	\$ 24,549
Cash (bank indebtedness) is comprised of:		
Cash	\$ 5,806	\$ 988
Short-term notes receivable	-	31,187
Bank indebtedness	(5,977)	(7,626)
	\$ (171)	\$ 24,549

notes to the consolidated financial statements

YEARS ENDED DECEMBER 31, 1995 AND 1994

(all tabular amounts are in thousands of dollars)

1. Significant accounting policies

a) Basis of presentation

These consolidated financial statements are prepared in accordance with generally accepted accounting principles and include the accounts of SR Telecom Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

b) Equity investments

Investments over which the Corporation exercises significant influence are accounted for using the equity method.

c) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost computed at standard.

d) Sales

Sales are recognized at the completion of in-plant testing for orders received.

e) Property, plant and equipment and other assets

Property, plant and equipment and other assets are recorded at cost and are amortized over their estimated useful lives on the following bases:

Building and improvements	straight-line over 20 and 10 years
Machinery, equipment and fixtures	20% diminishing balance
Computer equipment	30% diminishing balance
Patents	straight-line over 14 years
Goodwill	straight-line over 40 years

f) Bid costs

Capitalized bid costs represent fees incurred for external services and are net of any government assistance received. Certain government assistance is repayable following a successful bid and the repayment in these circumstances is capitalized. Bid costs are amortized over the life of the contract to which they relate.

g) Goodwill

Goodwill represents the excess of cost over net assets of a subsidiary acquired. Management assesses the continuing value of goodwill each year by considering current operating results, trends, and future prospects and is of the opinion that the value has been maintained.

h) Deferred charges

Certain costs incurred during the pre-operating period of a new manufacturing facility have been capitalized and are amortized over the first two years of commercial operations.

1. Significant accounting policies (continued)*i) Warranty costs*

Warranty costs are expensed as incurred.

j) Research and development

The Corporation incurs costs relating to the research and development of new products. Such costs are expensed as incurred net of government grants and investment tax credits.

2. Accounts receivable

	1995	1994
Trade and other	\$ 48,989	\$ 41,149
Due from government agencies (Note 10)	684	1,615
	\$ 49,673	\$ 42,764

Holdbacks on contracts which are not receivable within one year are classified as accounts receivable-long-term.

3. Investment

Effective August 22, 1995, the Corporation sold its 43% equity interest in CTI Celteck Electronics Inc. for cash of \$298,000 resulting in a gain of \$152,000, and received repayment of previous advances in the amount of \$1,070,000.

4. Property, plant and equipment

	1995		
	Cost	Accumulated amortization	Net book value
Land	\$ 1,809	\$ -	\$ 1,809
Building, improvements and fixtures	20,767	5,551	15,216
Machinery and equipment	21,969	8,387	13,582
Computer equipment	6,406	2,861	3,545
	\$ 50,951	\$ 16,799	\$ 34,152

	1994		
	Cost	Accumulated amortization	Net book value
Land	\$ 1,106	\$ -	\$ 1,106
Building, improvements and fixtures	10,472	4,002	6,470
Machinery and equipment	13,569	7,279	6,290
Computer equipment	4,618	2,130	2,488
	\$ 29,765	\$ 13,411	\$ 16,354

5. Other assets

	1995		Net
	Cost	Accumulated amortization	book value
Deferred charges	\$ 1,524	\$ 88	\$ 1,436
Patents and goodwill	3,284	2,180	1,104
Deferred bid costs	797	627	170
	\$ 5,605	\$ 2,895	\$ 2,710

	1994		Net
	Cost	Accumulated amortization	book value
Patents and goodwill	\$ 3,284	\$ 2,083	\$ 1,201
Deferred bid costs	750	245	505
	\$ 4,034	\$ 2,328	\$ 1,706

6. Bank indebtedness

The Corporation has arranged operating lines of credit totalling \$20,700,000 (1994 -\$10,700,000), of which \$5,977,000 (1994 - \$7,626,000) has been drawn.

7. Long-term debt

	1995	1994
Mortgage payable, secured by land and building, bearing interest at 11.5%, and repaid in March 1995	\$ -	\$ 2,520
Obligations under capital leases	-	41
	-	2,561
Current portion	-	2,561
	\$ -	\$ -

8. Capital stock

Authorized

An unlimited number of common shares

An unlimited number of preferred shares issuable in series

	1995	1994
<i>Issued and outstanding</i>		
35,652,358 Common shares		
(1994 - 35,476,885)	\$ 58,353	\$ 57,523

During the year, the following transactions took place in the capital stock account:

- 45,473 (1994 - 40,846) Common shares were issued under the Employee Stock Purchase Plan for cash of \$646,000 (1994 - \$525,000)
- Options in respect of 130,000 (1994 - 31,000) Common shares were exercised for cash of \$184,000 (1994 - \$37,000)

During 1994, 3,200,000 Common shares were issued for cash of \$40,000,000.

At December 31, 1995, there are options outstanding to purchase 262,000 (1994 - 385,000) Common shares at prices varying between \$1.54 and \$14.76, and expiring at various dates to December 1, 2000.

9. Income taxes

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1995		1994	
Income tax expense at statutory rates	\$ 7,695	38.2%	\$ 7,889	37.7%
Reduction relating to manufacturing and processing profits	(1,410)	(7.0)	(1,465)	(7.0)
Reduction relating to non-taxable items	(389)	(1.9)	-	-
Other	(359)	(1.8)	(171)	(0.8)
Income tax expense	\$ 5,537	27.5%	\$ 6,253	29.9%

10. Government assistance

The Corporation received government assistance by way of grants and investment tax credits related to the following:

	1995	1994
Research and development	\$ 4,864	\$ 6,298
Marketing and technology transfer	855	78
Property, plant and equipment	244	758
Quality improvement and training	32	57

11. Contingencies and commitment

In the ordinary course of business, a Canadian chartered bank has issued letters of guarantee on behalf of the Corporation in the amount of \$20,285,000. These letters of guarantee expire at various dates between 1996 and 2001.

In order to minimize exposure to short-term fluctuations in foreign currency exchange rates, the Corporation has entered into foreign currency forward exchange contracts with a Canadian chartered bank. At December 31, 1995, the Corporation had open contracts requiring the delivery of U.S.\$44,000,000 for Cdn.\$59,608,000. These contracts expire at various dates to March 1997.

The Corporation is committed under operating leases for business premises as follows:

1996	\$ 442,000
1997	\$ 103,000

12. Related party transactions

Transactions and balances, in the normal course of business, with affiliated companies were as follows:

	1995	1994
Sales	\$ 1,668	\$ -
Purchases	216	44
Accounts payable	26	10
Accounts receivable	1,668	-

13. Segmented information

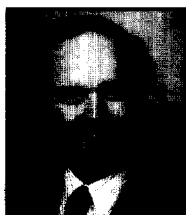
The Corporation considers that its operations fall principally into one product class, point-to-multipoint microwave telecommunication systems.

Manufacturing operations are in one geographic area. Export sales were 97% of total sales in 1995 (1994 - 97%).

14. Comparative figures

Certain comparative figures have been reclassified in order to conform to the presentation adopted in the current year.

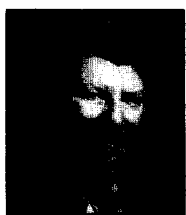
directors' profiles



PAUL A. DICKIE †

Mr. Dickie, a chartered accountant, joined LeBlanc & Royle as Controller in 1972. With the expansion of that company's interests, he rose steadily through a number of management positions, leading to his present post of President.

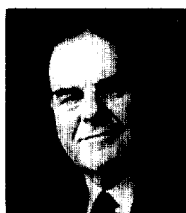
In addition, he sits on the boards of LeBlanc & Royle and a number of its subsidiaries. He became **Chairman of the Board** of SR Telecom in 1994.



W. RONALD COUCHMAN

Mr. Couchman, a chartered accountant, served for 13 years with a major Canadian telecommunications company in several management positions, before joining SR Telecom in 1981 as Vice-President and General Manager.

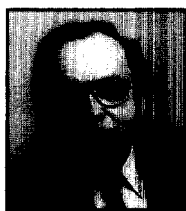
He was appointed **President** and Chief Operating Officer in 1991, and **Chief Executive Officer** in 1994.



DONALD M. BEAUPRÉ †

Mr. Beaupré started his communications career in the RCAF and with a western Canadian company, where he rose to become a member of the board. He joined Farion Canada in 1967, where he developed the subscriber radio concept.

In 1981 he was instrumental in the purchase of the division which became SR Telecom, and served as Chairman and CEO of the Company until his retirement in 1994. Mr. Beaupré continues to serve on the board of directors.



THOMAS F. BYRNE

Mr. Byrne is a principle in Byrne, Crosby, a Toronto legal firm, and is a member of both the Canadian and American Bar Associations.

In 1962, he assisted in the establishment of the corporation that is now LeBlanc & Royle and has been associated with SR Telecom since its formation in 1981. Mr. Byrne is **Corporate Secretary**.



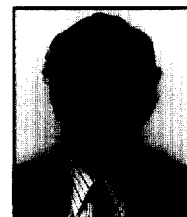
CONSTANCE L. CROSBY *

Ms. Crosby is a partner in the Toronto law firm of Byrne, Crosby and is engaged in the fields of technology licensing and computer law. She is a director of Teklogix International Limited, a private Canadian

computer manufacturing firm with international operations. Ms. Crosby also serves on the boards of several charitable organizations and is **Chairperson of the Corporate Governance Committee**, comprised of the entire Board.

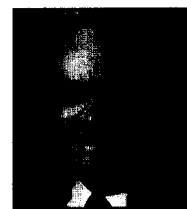
FRANCIS FOX †

Mr. Fox holds degrees from the universities of Montreal and Harvard, as well as Oxford, where he studied as a Rhodes Scholar. First elected to the House of Commons in 1972, Mr. Fox held a number of portfolios, including those of Solicitor General, Secretary of State, Minister of Communications, and Minister of International Trade. Mr. Fox, a senior partner with Martineau, Walker in Montreal, returned to the practice of law in 1985, and is a member of the bars of Quebec and Ontario, and of the Canadian Bar Association. He also serves on the boards of several companies.



DAVID J. HADLEY *

Mr. Hadley, a graduate engineer, started his career with Bell Canada in 1949. In 1954, he joined a California-based company and became responsible for their technical operations in Central and South America. He returned to California to work with Farion Electric, and, in 1965, established that company's operation in Canada; he became its President and retired in 1978. Mr. Hadley has served on SR Telecom's board since 1981.



NANCY E. MCGEE *

Mrs. McGee, a chartered accountant, joined LeBlanc & Royle in 1978 as Controller. With the expansion of that company's interests, she was appointed Vice-President of Finance and Administration and serves on the boards of LeBlanc & Royle and a number of its subsidiaries.



GEORGE E. PATTON

Mr. Patton started his career in telecommunications with RCA in 1960, and joined the LeBlanc & Royle organization in 1964, where he is now Chairman and Chief Executive Officer. He is currently involved in the development of the international operations of the company and its diversification into other businesses.



* Member of the Audit Committee

† Member of the Compensation Committee

management profiles



GARY R. FORBES
Vice-President, Asia-Pacific

Mr. Forbes, a professional engineer, began his career with a Canadian operating telephone company, and moved to the USA in 1983 with Northern Telecom.

He has held various management positions in product planning, sales and marketing at Northern Telecom and Fujitsu America before joining SRT in 1994.



IAN GRIER
*Senior Vice-President,
Engineering & Marketing*

Mr. Grier started his career designing microwave products for the aerospace industry, and later joined a company

specialized in microwave radio. As Director of Engineering, he led their evolution from analog to digital technology.

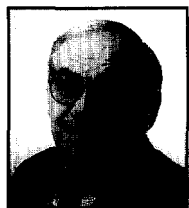
He joined SR Telecom in 1990 as Vice-President of Engineering.



GEORGE HASSOULAS
Vice-President, Manufacturing

Mr. Hassoulas has specialized in production technology for the electronics industry for many years, and has held senior management positions in his field. In 1987

he moved to a telecommunications company as Manufacturing Director, and in 1992 joined SR Telecom, where he has led the expansion in the Company's production capabilities.



D'ARCY J. LEDDY
Treasurer & Chief Financial Officer

Mr. Leddy started his career with a major Canadian bank in 1960, and has since served in a variety of corporations, both private and public, in senior financial

positions. Mr. Leddy joined SR Telecom in 1985, and serves as Treasurer and Chief Financial Officer of the Company.

Mr. Leddy holds an MBA degree from Concordia University.

MICHAEL J. MORRIS
*Vice-President, Technical
& Industrial Liaison*

Mr. Morris, a professional engineer, joined SR Telecom in 1984, as Vice-President, Engineering, bringing a wide experience

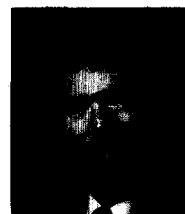
acquired while managing the engineering department of a major Canadian company engaged in the design and manufacture of microwave and satellite telecommunications systems. Mr. Morris is active in telecommunications issues, both in Canada and with the International Telecommunications Union. He is also responsible for SR Telecom's investor relations.



DOUG ROSS

Vice-President, The Americas

Mr. Ross has been in the telecommunications industry for over 25 years, and has held senior positions in a number of major companies, including that of Vice-President of Operations in a firm specializing in the sale of fiber optic data and video networks. Mr. Ross has been with SR Telecom since 1989.



NICK VOULOUMANOS

President, Apollo Microwaves Limited

Mr. Vouloumanos holds the degree of B.Sc. in physics, and was responsible for the development of microwave devices with Comdev, where he rose to manage the earth

station product line. In 1980, Mr. Vouloumanos founded his own company, Apollo Microwaves. The company is a specialized high quality microwave components designer and supplier. Apollo has grown to the point where its expertise in its field is now recognized worldwide.



glossary

Antenna Integrated Module (AIM)

The name given to the family of antenna units for the 10.5 GHz SR500-s System. It contains in one integrated package both the antenna and frequency conversion to and from the 10.5 GHz band.

Local Area Network (LAN)

One of several types of geographically limited communications networks used for high speed data transmission applications which might include data transfer, text messages, facsimile and types of video.

Metropolitan Area Network (MAN)

A communications network which spans geographical areas whose size is between that of a Local Area Network and a Wide Area Network: typically in a metropolitan area.

10.5 GHz SR500-s

A new, higher frequency band of operation for the SR500-s system which may be used to bring fixed wireless access directly to buildings or to provide a radio link between urban and rural settings.

Wide Area Network (WAN)

A generic term for any communications network that covers a large geographic area.

Wireless Loop Subsystem

A new member of the SR500-s family which provides a cost effective radio alternative to wire between an SR500-s outstation and the subscribers' premises. The wireless loop subsystem consists of wireless terminals which communicate to a wireless base station by means of a radio link over a radius of up to about 10 km.

Wireless Base Station

Located in an SR500-s remote station, this unit, part of the wireless loop subsystem, acts as the "hub" for a number of wireless terminals communicating through the main SR500-s system.

Wireless Terminal

That part of the wireless subsystem typically located at the subscriber's premises providing a single line for a telephone, fax, computer, etc.



A Micro II outstation site.

corporate information

HEAD OFFICE

SR Telecom Inc.

8150 Trans-Canada Highway
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Canada H4S 1M5

Telephone (514) 335-1210
Facsimile (514) 334-7783

HEAD OFFICE

Apollo Microwaves

275 Hymus Boulevard
Pointe-Claire, Quebec
Canada H9R 1G6

Telephone (514) 426-5959
Facsimile (514) 426-5788

REGISTRAR

Montreal Trust Company

1800 McGill College, 7th floor
Montreal, Quebec

shareholder information

SHARES

Number of common shares outstanding at
December 31, 1995: 35,652,358
Public float: 22,034,374
Number of registered shareholders
(common shares): 446
Volume of common shares traded in 1995
Montreal Exchange: 4,353,067
Toronto Exchange: 7,242,175

STOCK EXCHANGES

SR Telecom's common shares are listed on
The Montreal and Toronto Stock Exchanges
under the (symbol) SRX.

Requests for information should be directed to:

Mr. Mike Morris or Mrs. Claire Séguin
Investor Relations
SR Telecom Inc.
8150 Trans-Canada Highway
St. Laurent, Quebec
Canada H4S 1M5

ANNUAL MEETING

Shareholders are invited to attend the
Annual Meeting of SR Telecom Inc.,
Friday, April 26, 1996 at 9:00 a.m.
Singapore Room
Hotel Ruby Foo's
(514) 731-7701
7655 Decarie Boulevard
Montreal, Quebec
H4P 2H2

A continental breakfast will
be served starting at 8:00 a.m.

Pour obtenir la version française de ce rapport,
s'adresser à:

M. Mike Morris ou Mme Claire Séguin
Relations avec les investisseurs,
SR Telecom Inc.
8150, route Transcanadienne
Ville St-Laurent (Québec)
Canada H4S 1M5



SR Telecom Inc.
8150 Trans-Canada Highway
St. Laurent, Quebec
Canada H4S 1M5



Wireless Telecommunications Networks

SR Telecom

Point-to-multipoint
TDMA microwave systems

Radio expands telecommunications networks...

In over 70 countries, SR Telecom™ systems distribute full-quality telephone and data services to areas outside of cabled networks.

Transmission to and from the outstations is provided by radio, in bands from 1.4 to 2.7 GHz.

Outstations, in various sizes, accommodate from 2 to 256 lines.

Repeaters extend system range to several hundred kilometers.

